



## **LODI CITY COUNCIL**

**Carnegie Forum**

**305 West Pine Street, Lodi**

## **"SHIRTSLEEVE" SESSION**

**Date: February 28, 2006**

**Time: 7:00 a.m.**

For information regarding this Agenda please contact:

**Susan J. Blackston**

**City Clerk**

**Telephone: (209) 333-6702**

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### **Informal Informational Meeting**

**A. Roll call by City Clerk**

**B. Topic(s)**

B-1 Set-aside of Community Development Block Grant funds for an Economic Development Program (CD)

**C. Comments by public on non-agenda items**

**D. Adjournment**

Pursuant to Section 54954.2(a) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day.

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Susan J. Blackston  
City Clerk



## CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Set-Aside of CDBG Funds for an Economic Development Program

**MEETING DATE:** February 28, 2006

**PREPARED BY:** Community Improvement Manager

**RECOMMENDED ACTION:** Receive a report and presentation on the proposed set-aside of CDBG funds for use in an Economic Development Jobs Program.

**BACKGROUND INFORMATION:** The City Council is set to conduct a Public Hearing on March 1, 2006, to review and approve proposed recommendations for use of 2006/07 Community Development Block Grant (CDBG) funding.

One of the funding recommendations to be considered at the public hearing will be the City Manager's request for the set-aside of CDBG funds for use in an Economic Development Jobs Program. The purpose of this presentation is to introduce Council to the concept of the use of CDBG funds for economic development, specifically for the creation of jobs within the community.

In order to establish the groundwork for such a program, the City Manager has hired consultant Carleen Bedwell, Managing Principal with Applied Development Economics, to assist staff with identifying the necessary requirements and guidelines for the proposed program to meet HUD regulations.

In her initial review of the applicable regulations pertaining to the use of CDBG funds, Ms. Bedwell has determined that in using a portion of the funds available, the City of Lodi has the opportunity to establish an economic development component within its CDBG program. With such a program the City could use CDBG funds to partner with private sector activities to attract, retain, or expand industrial, commercial or service businesses and to create local jobs as a result. In some cases CDBG funds can be used to set the stage for major City economic development projects. The City also has the opportunity to use the funds in a manner that will enable them to become a revolving source of funding for the City to reuse for future economic development activities.

Attached, is the working draft of Ms. Bedwell's findings in her report to the City Manager. In support of Community Development Department staff, Ms. Bedwell will be present to share her findings and answer any questions that the Council may have on this issue.

**FUNDING:** Not applicable at this time.

Respectfully Submitted:

Concurred:

\_\_\_\_\_  
Joseph Wood  
Community Improvement Manager

\_\_\_\_\_  
Randy Hatch  
Community Development Director

Attachment

APPROVED: \_\_\_\_\_  
Blair King, City Manager



## MEMORANDUM

To: Blair King, City Manager, City of Lodi  
From: Carleen Bedwell, Managing Principal  
Date: February 22, 2006  
Re: Economic Development Component, City CDBG Program

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### CITY OF LODI CDBG FUNDS

Annually the City of Lodi receives its Community Development Block Grant (CDBG) funds from the San Joaquin County Community Development Block Grant program. The original source of the County funds is the Department of Housing and Urban Development (HUD).

The City's 2006-07 allocation of CDBG funds from the County is \$xxxxxxxxxx. In addition, the City has \$yyyyyyyyy in past allocated funds which are available for re-allocation. A third source of CDBG funds is CDBG Program Income, which are the repayments to the City of previous loans made to local residents from CDBG funds. In total, the City has \$zzzzzzzzzz in CDBG funds which are available for allocation or reallocation at this time.

### CDBG FUNDS AND ECONOMIC DEVELOPMENT

An eligible and active use of CDBG funds by communities throughout the nation is for the purpose of economic development. HUD has recognized that among community development needs is the need to promote the health and vitality of the local economy. A 2002 report prepared for HUD documented \$8 billion in CDBG funds were expended for economic development during the 1990's. The California State Small Cities CDBG program annually sets aside 30% (more than \$10 million) of its allocation from HUD for economic development..

Communities are increasingly proactive in economic development in order to stimulate business and job growth, revitalize downtowns, increase retail sales and revenue, attract new businesses, expand infrastructure, and increase local investment. Throughout California a wide variety of tools and resources are put to use in the public-private partnership of economic development. One of the resources available is the use of CDBG funds.

The City of Lodi has an economic strategy, adopted in 1998, with priorities for downtown revitalization and industrial growth. Since its adoption, the City has proceeded with a number of programs, to the extent resources and market activity have coincided. With the



growth of the community and the active economy of the Sacramento region, the City is considering additional resources which can be used to stimulate business and job growth for the benefit of Lodi residents.

Using a portion of the funds available, the City of Lodi has the opportunity to establish an economic development component within its CDBG program. With such a program the City could use CDBG funds to partner with private sector activities to attract, retain, or expand industrial, commercial or service businesses and to create or retain local jobs as a result. In some cases CDBG funds can be used to set the stage for major City economic development projects. The City also has the opportunity to use the funds in a manner that will enable them to become a growing resource for the City to reuse for future CDBG-eligible activities.

## **HUD REQUIREMENTS RE CDBG ECONOMIC DEVELOPMENT**

If the City were to establish an economic development component within its CDBG Program, the following requirements must be built into it, to comply with federal requirements.

### **CDBG National Objectives**

The CDBG program enables communities to design the economic development program that best meets local needs, as long as the activities are in accordance with the program's National Objectives and requirements. The use of CDBG funds for economic development must meet one of the National Objectives of: benefit to low- and moderate-income persons; elimination of slums and blight; or urgent need. The most common CDBG National Objective met is that of benefit for low-moderate income persons.

### **Public Benefit**

When CDBG funds are used for economic development, job creation or retention must occur, regardless of the National Objective being met. At least one full-time job (or its equivalency) must be created or retained for every \$35,000 of CDBG funds spent. The job must be documented and if the national objective being met is that of low-moderate income benefit, then the household income of the worker must be verified to determine that the low-moderate income benefit was achieved.

### **Davis-Bacon**

In the event CDBG funds are used for construction activities, the Davis-Bacon requirements regarding wages and other labor standards will likely be triggered.



### **Environmental Review**

Specific uses of the CDBG funds must show compliance with the environmental review requirements.

### **Relocation and Acquisition**

If a specific use of CDBG funds involves acquiring land or structures or displacement of an existing business, the Uniform Relocation and Real Property Assistance Act would be triggered.

### **Additional Requirements**

Depending on the specific elements of a City Economic Development component, additional HUD requirements may come into play. These are included in the discussion below.

## **ELEMENTS OF AN ECONOMIC DEVELOPMENT COMPONENT**

Following are the types of programs for which HUD permits CDBG Economic Development funds to be used. In every element the Public Benefit must be met. There must be the creation or retention of jobs, at the maximum amount of \$35,000 in CDBG funds for every full time job created.

### **Business Assistance Loans**

CDBG funds can be used for such purposes as: working capital, real estate acquisition, construction or improvements to a business facility, equipment purchase, or inventory purchase. This is one of the two most common elements of CDBG economic development activity. As these loans are repaid, the funds remain with the community making the loan, and are to be reused for other CDBG-eligible activities, creating a “Revolving Loan Fund” (RLF).

### **Public Infrastructure Improvements**

Funds may be used for public infrastructure associated with a business project. Examples include roads, or water/sewer to a business site. This element is the second of the two most common uses of CDBG economic development funds.

### **Special Economic Development Projects**

There may be occasions when the City has the opportunity to participate in an economic development project in some way other than a business loan or public infrastructure. For example, another community used its economic development CDBG funds to acquire a site from another government entity, which then will be developed by



the private sector use, with new jobs, new businesses and new local investment resulting. With the job creation, this is an eligible use of CDBG funds.

### **Microenterprise Activities**

Funds may be used for microenterprise activities in support of businesses with five or fewer employees, at least one of whom owns the enterprise; and training and technical assistance to increase the capacity of recipients to carry out the microenterprise activity. This element requires a specialized program focused only on microenterprise operations, training, and support services. Low-moderate income persons must benefit.

### **Economic Development Services**

An eligible use of funds is economic development services performed in conjunction with other CDBG economic development activities, such as training or business support services.

## **CITY OF LODI CDBG REVOLVING LOAN FUND**

In the event the City wishes to proceed with using a portion of its CDBG funds for economic development, the first activity for the City to consider is a Business Revolving Loan Fund. Other projects and elements can be added as opportunities arise.

With a Business Revolving Loan Fund the City would make loans to businesses in return for the public benefit of creating or retaining jobs, through business attraction, expansion and retention. As the loans are repaid, the City retains the funds as “CDBG Program Income” and the money is available for reuse (i.e., relending) for new CDBG business loans or other CDBG-eligible uses. As an example, one relatively small Sacramento community has a loan program of more than \$1 million, built up through the judicious use of CDBG loans and CDBG Program Income.

### **BUSINESS RLF PROGRAM DESIGN**

If the City wishes to proceed with establishing a Business Revolving Loan Fund (RLF), there are key factors in the program design and structure to be decided by the City. These include:

#### **Funding of the Program**

The City should determine how much CDBG money it wishes to make available for the Revolving Loan Fund, in its initial establishment.



### **Program Administration**

Operating a loan program requires a variety of activities, such as: program marketing and intake; loan underwriting, loan origination, loan servicing and program reporting. These functions can be performed by City staff, by City consultants, by other local agencies such as the San Joaquin County CDBG Program, or a local Economic Development Corporation. Responsibilities can also be divided among multiple entities.

### **Types of Borrowers to Assist**

The City has the opportunity to use the RLF to achieve certain economic development priorities. Decisions can be made which state a preference for loans based upon such factors as: size of the business; industry type of business; the stage the business is in; and the business location.

### **Activities to Finance**

The City can indicate the types of activities for which it wishes to loan funds, such as: working capital; purchase of machinery and equipment; acquisition of property; construction or improvements to business facility.

### **Size of the Loans**

The City can establish a dollar limit for its RLF loans, or it can operate without a maximum or minimum.

### **Underwriting Criteria**

HUD requires that all potential loans go through an underwriting process through which the loan request is evaluated. HUD provides loan underwriting criteria as a guideline. The City can use the HUD criteria or establish equivalent criteria.

### **Loan Structure**

Communities have substantial flexibility about structuring the loan, such as the term of the loan, the interest rate, security requirements, deferral or interests-only period.

### **Loan Documents**

A CDBG Revolving Loan Fund has considerable documentation—for the program overall and for the individual loans. Program documents would include RLF Guidelines, and sample Agreements, marketing materials and public information. Individual loans would include such documents as the Loan Agreement, the Promissory Note, and the Employment Agreement.



### **CITY DECISIONS**

1. Does the City wish to proceed with an Economic Development Component of its CDBG Program?
2. What is the amount of money to commit to the program for the first year?
3. Is the first activity the establishment of a Business Revolving Loan Fund?

In the event the above decisions result in the City determination to set aside a portion of the City's CDBG funds for Economic Development and to proceed with the establishment of a Business Revolving Loan Fund using the funds, the next step is to return with recommendations for the RLF program design and operation, including draft documentation.